

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
DECEMBER 31, 2009 AND 2008

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NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2009 and 2008

Our discussion and analysis of the financial performance of Newman Regional Health provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2009 and 2008. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Hospital's net assets decreased by \$1,337,036 or 3.7 percent in 2009 as compared to a decrease of \$1,687,694 or 4.5 percent in 2008.

The Hospital reported an operating loss of \$779,179 in 2009. This compares to an operating loss of \$1,355,341 in 2008 and operating income of \$892,269 in 2007.

Using these financial statements

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenue, Expenses and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific operating purposes by contributors, grantors and indenture agreements.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources including all restricted and unrestricted assets and all liabilities using the accrual basis of accounting in a way that helps answer this question. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's net assets - the difference between assets and liabilities may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2009 and 2008

Assets, liabilities and net assets

The Hospital's balance sheets as of the end of each of the last three years are summarized as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets			
Current assets	\$ 16,137,930	\$ 15,692,172	\$ 16,270,044
Assets limited as to use	7,602,155	7,561,859	7,437,379
Capital assets, net	29,128,070	32,211,694	34,260,620
Other assets	<u>267,301</u>	<u>239,467</u>	<u>412,943</u>
Total assets	<u>53,135,456</u>	<u>55,705,192</u>	<u>58,380,986</u>
Liabilities			
Current liabilities	4,384,232	4,644,410	4,648,241
Long-term obligations	<u>14,053,000</u>	<u>15,025,522</u>	<u>16,009,791</u>
Total liabilities	<u>18,437,232</u>	<u>19,669,932</u>	<u>20,658,032</u>
Net assets	<u>\$ 34,698,224</u>	<u>\$ 36,035,260</u>	<u>\$ 37,722,954</u>

Despite the decrease in net assets and challenging environment that we operate, the Hospital continues to maintain a strong and liquid balance sheet. Our liquidity position when measured by the ratio of current assets to current liabilities was 3.7 in 2009, 3.4 in 2008, and 3.5 in 2007. Current assets increased by \$445,758 in 2009, after declining by \$577,872 in 2008, both as compared with the prior year. Significant components of current assets are cash and cash equivalents and patient accounts receivable. Cash and cash equivalents increased slightly and have ranged from \$8.14 million in 2007 to \$8.28 million in 2009. The level of patient accounts receivable is impacted by patient revenues generated during the last two months of the year as well as our efficiency in collecting charges. The number of days net revenue invested in net accounts receivable was 47 days in 2009, 43 days in 2008, and 48 days in 2007. The other notable change in our balance sheet for the periods presented above is the gradual decline in capital assets, net. This decline is a result of our annual depreciation provision exceeding expenditures for replacement of capital assets and equipment. We expect this trend to continue in the near future as our budget for capital acquisitions is expected to run below our expected annual depreciation provision.

Total liabilities declined in each of the years presented as compared with the previous year. The decline is due primarily to the change in long-term debt obligations which have declined as scheduled debt retirements have exceeded new capital lease obligations entered into by the Hospital.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2009 and 2008

Operating results and changes in net assets

In 2009, the Hospital's net assets decreased by \$1,337,036, or 3.7 percent as shown in the following table. This decrease is made up of very different components. The Hospital's operating results and changes in net assets for each of the last three years are summarized as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues			
Net patient service revenue	\$ 44,208,327	\$ 46,089,733	\$ 46,704,398
Other operating revenue	<u>2,496,656</u>	<u>2,449,447</u>	<u>2,617,146</u>
Total operating revenue	46,704,983	48,539,180	49,321,544
Operating expenses			
Salaries and wages	20,979,759	21,995,534	20,212,668
Employee benefits	5,516,056	5,519,427	5,031,215
Supplies and other expenses	16,836,075	17,982,989	18,811,269
Depreciation and amortization	<u>4,152,272</u>	<u>4,396,571</u>	<u>4,374,123</u>
Total operating expenses	47,484,162	49,894,521	48,429,275
Operating income (loss)	(779,179)	(1,355,341)	892,269
Interest expense	(872,412)	(927,013)	(979,309)
Other nonoperating revenues			
(expenses)	312,318	581,245	890,486
Capital grants and contributions	2,237	18,027	16,691
Transfers	<u> </u>	<u>(4,612)</u>	<u> </u>
Increase (decrease) in net assets	<u>\$ (1,337,036)</u>	<u>\$ (1,687,694)</u>	<u>\$ 820,137</u>

The first component of the overall change in the Hospital's net assets is its operating income (loss) - generally, the difference between operating revenues and the expenses incurred to perform those services. The Hospital reported a decrease in operating loss of \$576,162 in 2009 as compared with 2008. This follows a decline of \$2,247,610 in 2008, and an increase of \$1,555,859 in 2007, both as compared with the preceding year. The operating performance of our Hospital is influenced greatly by utilization which is affected by the health of our local economy, availability of physician services in our community, and patient access to health insurance coverage. Total operating revenues declined by 3.8 percent and 1.6 percent in 2009 and 2008, respectively, after increasing by 18.0 percent in 2007. We have been focused on issues affecting utilization and our strategic plan has been to maintain the highest level of advanced medical technology, enhancing relations with existing physicians, and assisting with the recruitment of new physicians to our community. One event that we believe affected utilization in 2008 was the reduction in workforce by multiple employers in our community. This trend continued into 2009 as we continued to experience a decline in inpatient utilization. Also notable in 2009 was our decision to

NEWMAN MEMORIAL COUNTY HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2009 and 2008

close our home health agency and some other lesser utilized noncore services which affects the revenue comparison. These reductions, however, were offset somewhat by an increase in physician service revenue due to having additional hospital-owned physician practices. We are experiencing a shift in our mix of patients with a lower percentage of our revenues being generated from inpatient services. The following table displays the number of inpatient days of service provided by the Hospital during the past four years and shows the gradual decline in the utilization of inpatient services:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Acute care days	10,371	11,612	13,062	12,250
ICU days	587	678	602	714
Skilled days	1,651	2,009	2,171	2,719
Rehab days	1,045	1,271	1,776	1,656
Nursery days	<u>1,054</u>	<u>1,248</u>	<u>1,448</u>	<u>1,337</u>
Total inpatient days	<u>14,708</u>	<u>16,818</u>	<u>19,059</u>	<u>18,676</u>

As you can see by the table, inpatient days have declined by 21 percent from 2006 to 2009. In 2009, we consolidated our nursing units to achieve efficiencies in the delivery of care. We have also been active in recruiting physicians to our community and have devoted resources to medical staff relations in an attempt to counteract the decline in patient days. In the past two years, we have employed or acquired select physician practice groups that we feel are necessary to ensure that a full complement of services are available in our community.

The change in operating revenues from year to year has also been impacted by the amount of payments received from the State of Kansas Medicaid disproportionate share hospital (DSH) program. During 2009, 2008, and 2007, the Hospital qualified for Medicaid DSH payments in the amounts of \$1,049,645, \$867,994, and \$390,000 after receiving no payments under this program in 2006. Eligibility for these payments is determined annually and is based upon numerous factors including the level of services provided to uninsured and Medicaid beneficiaries as compared with other Hospital providers in the State. These funds are essential to offsetting a portion of the loss from treating uninsured and underinsured patients. It is uncertain as to whether we will continue to receive this allocation in the future.

Another factor affecting net patient service revenue is the amount of care provided by the Hospital for which no payment is received or expected to be received. Understanding our role as a community member, the Hospital implemented a policy in December 2005 that automatically provides a 20 percent discount to all uninsured patients. The percentage of gross charges that are written off annually due to uninsured discounts, charity care discounts, and bad debts equaled 7.1 percent in 2009. This compares to 5.8 percent in 2008 and 6.3 percent in 2007. Total discounts granted to uninsured or charity care patients equaled \$3,891,361 in 2009 as compared to \$3,212,468 in 2008 and \$2,870,556 in 2007.

Another significant component of operations is salaries and benefits. Total salaries and wages decreased by 4.6 percent in 2009, and increased by 8.8 percent in 2008 and 12.5 percent in 2007. The decrease in salaries relates directly to

NEWMAN MEMORIAL COUNTY HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2009 and 2008

our efforts to control hours worked and to the elimination of some noncore services. These decreases were somewhat offset due to physician employment within hospital-owned clinics. Total full-time equivalent employees decreased in 2009 to 413, as compared with 468 and 460 in 2008 and 2007. Employee benefits expense decreased by 0.1 percent in 2009, and increased by 9.7 percent and 11.1 percent in 2008 and 2007. When measured as a percent of total salaries, these costs represent 26.3, 25.1, and 24.9 percent of total salaries in 2009, 2008, and 2007.

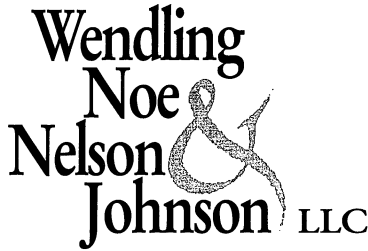
Supplies and other expenses decreased by \$1,146,914 or 6.4 percent in 2009, decreased by \$828,820 or 4.4 percent in 2008, and increased by \$3,232,696 or 20.6 percent in 2007. While we have experienced normal inflationary increases in the cost of goods and services each year, we have been very focused on making operational changes to reduce our costs and to become more flexible with changing volumes. In 2009, we reduced our use of nonphysician related contract labor by approximately \$585,000, with most of this reduction coming in inpatient nursing service areas which have experienced a continued reduction in utilization. We also experienced reductions due to the closure of our home health agency and some other noncore services in 2009. The reduction in contract labor costs was offset somewhat by an increase in emergency room physician costs of approximately \$150,000, as the Hospital is now again staffing and billing for emergency room physician services which began in mid 2009.

In January 2008, the Hospital entered into an agreement for emergency room physician coverage which resulted in the emergency room physician group billing for their own services (this was also an item that affected the decrease in net revenues in 2008 as compared to 2007). In exchange for assigning the billing rights to the emergency room provider, the Hospital saw its costs for emergency room coverage decline by \$928,375. We also experienced a \$245,655 decline in our contract rehabilitation services costs in 2008, which was somewhat offset by an increase in salary and benefit costs as some of the contract employees became employees of the Hospital in 2008. These decreases were offset by an approximate \$300,000 increase in our Information Technology costs which related to technology upgrades and ongoing maintenance fees.

Depreciation and amortization expenses decreased \$244,299 in 2009 compared to expense being relatively unchanged for 2008 and 2007. This expense is expected to decrease as depreciation expense exceeds capital acquisitions in future years.

Interest expense decreased slightly for each year presented as total debt outstanding decreased. We expect this to continue as we refunded all of our outstanding bonds payable on April 1, 2010, at interest rates that are lower than the bonds refunded. We expect the refinancing will result in annual savings of approximately \$200,000.

The Hospital is a county-owned entity and, as such, has an obligation to care for all patients regardless of their ability to pay. As noted above, during 2009, discounts for patients meeting the Hospital's charity care and uninsured discount policy increased to \$3.891 million. The Hospital's provisions for bad debts were \$2.744 million in 2009, as compared with \$2.121 million in 2008 and \$2.821 million in 2007. The increasing cost of treating uninsured or underinsured patients is common for our industry and is one of the many challenges that we face.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Newman Memorial County Hospital

We have audited the accompanying combined balance sheets of Newman Memorial County Hospital d/b/a Newman Regional Health, a component unit of Lyon County, Kansas, as of December 31, 2009 and 2008, and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Newman Memorial County Hospital d/b/a Newman Regional Health as of December 31, 2009 and 2008, and the combined results of its operations, changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 1 through 5 is not a required part of the basic financial statements but is required supplementary information by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
April 9, 2010

FINANCIAL STATEMENTS

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
COMBINED BALANCE SHEETS

December 31,

ASSETS

	2009		2008	
	<u>Hospital</u>	<u>Component units</u>	<u>Hospital</u>	<u>Component units</u>
CURRENT ASSETS				
Cash and cash equivalents (Notes A5 and J)	\$ 8,276,601	\$ 1,431,797	\$ 8,182,792	\$ 1,282,272
Short-term investments (Note N)		1,810,097		1,572,782
Assets limited as to use (Notes A9, C, E and J)	144,035		144,040	
Patient accounts receivable, net of estimated uncollectibles of \$1,526,000 in 2009 and \$1,368,000 in 2008 (Notes A6 and M)	5,679,371	237,619	5,367,988	150,603
Other receivables	119,024	265	330,592	871
Inventories (Note A7)	953,933		945,828	
Estimated third-party payor settlements (Note B)	181,621		351,895	
Prepaid expenses	783,345	55,961	369,037	5,662
Total current assets	<u>16,137,930</u>	<u>3,535,739</u>	<u>15,692,172</u>	<u>3,012,190</u>
ASSETS LIMITED AS TO USE (Notes A9, C, E, and J)				
Internally designated for capital acquisitions	5,399,459		5,336,984	
Under bond indenture agreements - held by trustee	2,293,454		2,318,376	
By contributors for scholarships	53,277		50,539	
	<u>7,746,190</u>		<u>7,705,899</u>	
Less amounts required to meet current obligations	<u>144,035</u>		<u>144,040</u>	
	<u>7,602,155</u>	<u>-</u>	<u>7,561,859</u>	<u>-</u>
CAPITAL ASSETS, net (Notes A10 and D)	<u>29,128,070</u>	<u>8,615</u>	<u>32,211,694</u>	<u>4,470</u>
OTHER ASSETS				
Deferred financing costs (Note A11)	113,535		136,902	
Other receivables	153,766		102,565	
	<u>267,301</u>	<u>-</u>	<u>239,467</u>	<u>-</u>
	<u>\$53,135,456</u>	<u>\$ 3,544,354</u>	<u>\$55,705,192</u>	<u>\$ 3,016,660</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	2009		2008	
	<u>Hospital</u>	<u>Component units</u>	<u>Hospital</u>	<u>Component units</u>
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 1,077,428	\$ 141,407	\$ 1,489,393	\$ 116,323
Accrued salaries and payroll taxes	774,975		683,989	
Interest payable	66,534		69,872	
Current maturities of long-term debt and capital leases (Notes E and O)	1,007,522		999,269	
Accrued vacation and other employee benefits	1,457,773		1,401,887	
Total current liabilities	<u>4,384,232</u>	<u>141,407</u>	<u>4,644,410</u>	<u>116,323</u>
LONG-TERM DEBT AND CAPITAL LEASES, net of current maturities (Notes E and O)	<u>13,960,000</u>	<u>-</u>	<u>14,967,522</u>	<u>-</u>
ESTIMATED LIABILITY FOR RECEIVABLES SOLD WITH RECOURSE (Note M)	<u>93,000</u>	<u>-</u>	<u>58,000</u>	<u>-</u>
COMMITMENTS AND CONTINGENCIES (Notes A1, I, L and O)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS (Note A13)				
Invested in capital assets - net of related debt	14,160,548	8,615	16,244,903	4,470
Restricted				
For debt service	2,293,454		2,318,376	
For specific operating activities	79,491	565,951	80,357	469,049
Unrestricted	<u>18,164,731</u>	<u>2,828,381</u>	<u>17,391,624</u>	<u>2,426,818</u>
	<u>34,698,224</u>	<u>3,402,947</u>	<u>36,035,260</u>	<u>2,900,337</u>
	<u>\$53,135,456</u>	<u>\$ 3,544,354</u>	<u>\$55,705,192</u>	<u>\$ 3,016,660</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
COMBINED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
Year ended December 31,

	2009		2008	
	<u>Hospital</u>	<u>Component units</u>	<u>Hospital</u>	<u>Component units</u>
Operating revenues				
Net patient service revenue (Note B)	\$44,208,327	\$ 1,423,689	\$46,089,733	\$ 1,097,742
Other	<u>2,496,656</u>		<u>2,449,447</u>	
Total operating revenues	<u>46,704,983</u>	<u>1,423,689</u>	<u>48,539,180</u>	<u>1,097,742</u>
Operating expenses				
Salaries and wages	20,979,759		21,995,534	
Employee benefits	5,516,056		5,519,427	
Supplies and other expenses	16,836,075	1,279,314	17,982,989	1,091,814
Depreciation and amortization	<u>4,152,272</u>	<u>7,088</u>	<u>4,396,571</u>	<u>2,637</u>
Total operating expenses	<u>47,484,162</u>	<u>1,286,402</u>	<u>49,894,521</u>	<u>1,094,451</u>
Operating income (loss)	<u>(779,179)</u>	<u>137,287</u>	<u>(1,355,341)</u>	<u>3,291</u>
Nonoperating revenues (expenses)				
Investment income	227,656	308,383	556,195	(476,199)
Interest expense	(872,412)		(927,013)	
Noncapital grants and contributions	51,923	85,460	70,017	77,790
Other	<u>32,739</u>	<u>(28,520)</u>	<u>(44,967)</u>	<u>(41,353)</u>
Total nonoperating (expenses) revenues	<u>(560,094)</u>	<u>365,323</u>	<u>(345,768)</u>	<u>(439,762)</u>
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions and transfers	(1,339,273)	502,610	(1,701,109)	(436,471)
Capital grants and contributions	2,237		18,027	
Transfers			<u>(4,612)</u>	<u>4,612</u>
Increase (decrease) in net assets	(1,337,036)	502,610	(1,687,694)	(431,859)
Net assets, beginning of year	<u>36,035,260</u>	<u>2,900,337</u>	<u>37,722,954</u>	<u>3,332,196</u>
Net assets, end of year	<u>\$34,698,224</u>	<u>\$ 3,402,947</u>	<u>\$36,035,260</u>	<u>\$ 2,900,337</u>

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
COMBINED STATEMENTS OF CASH FLOWS
Year ended December 31,

	2009		2008	
	<u>Hospital</u>	<u>Component units</u>	<u>Hospital</u>	<u>Component units</u>
Cash flows from operating activities				
Receipts from and on behalf of patients	\$44,102,218	\$ 1,336,673	\$46,778,386	\$ 1,133,293
Payments to or on behalf of employees	(26,348,943)		(27,390,343)	
Payments to suppliers	(17,600,996)	(1,304,529)	(17,587,216)	(1,070,869)
Other receipts and payments	<u>2,657,023</u>		<u>2,555,321</u>	
Net cash provided by operating activities	<u>2,809,302</u>	<u>32,144</u>	<u>4,356,148</u>	<u>62,424</u>
Cash flows from noncapital financing activities				
Noncapital grants and contributions	51,923	86,066	70,017	80,314
Other	(6,259)	(28,520)	(6,949)	(41,353)
Transfers			<u>(4,612)</u>	<u>4,612</u>
Net cash provided by noncapital financing activities	<u>45,664</u>	<u>57,546</u>	<u>58,456</u>	<u>43,573</u>
Cash flows from capital and related financing activities				
Purchase of property and equipment	(1,143,852)	(11,233)	(2,503,943)	(2,764)
Grants and contributions for capital	2,237		18,027	
Proceeds from sale of equipment	6,383		10,818	
Insurance proceeds	37,124			
Interest paid on capital related debt	(852,383)		(904,172)	
Principal payments on long-term debt	<u>(999,269)</u>		<u>(1,484,766)</u>	
Net cash used by capital and related financing activities	<u>(2,949,760)</u>	<u>(11,233)</u>	<u>(4,864,036)</u>	<u>(2,764)</u>
Cash flows from investing activities				
Increase in assets limited as to use	(96,663)		(2,388)	
Purchase of short-term investments		3,274		(116,518)
Interest received	<u>285,266</u>	<u>67,794</u>	<u>493,749</u>	<u>50,136</u>
Net cash provided (used) by investing activities	<u>188,603</u>	<u>71,068</u>	<u>491,361</u>	<u>(66,382)</u>
Increase in cash and cash equivalents	93,809	149,525	41,929	36,851
Cash and cash equivalents at beginning of year	<u>8,182,792</u>	<u>1,282,272</u>	<u>8,140,863</u>	<u>1,245,421</u>
Cash and cash equivalents at end of year	<u>\$ 8,276,601</u>	<u>\$ 1,431,797</u>	<u>\$ 8,182,792</u>	<u>\$ 1,282,272</u>

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
COMBINED STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	2009		2008	
	<u>Hospital</u>	<u>Component units</u>	<u>Hospital</u>	<u>Component units</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (779,179)	\$ 137,287	\$ (1,355,341)	\$ 3,291
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	4,152,272	7,088	4,396,571	2,637
Provision for bad debts	2,743,606		2,121,319	
Changes in				
Patient accounts receivable	(3,054,989)	(87,016)	(1,334,375)	35,551
Inventories	(8,105)		(29,849)	
Prepaid expenses	(414,308)	(50,299)	(52,747)	1,973
Accounts payable and accrued expenses	(195,636)	25,084	602,987	18,972
Estimated third-party payor settlements	170,274		(113,291)	
Estimated liability for receivables sold	35,000		15,000	
Other receivables	160,367		105,874	
Net cash provided by operating activities	<u>\$ 2,809,302</u>	<u>\$ 32,144</u>	<u>\$ 4,356,148</u>	<u>\$ 62,424</u>
Supplemental schedule of noncash investing and financing activities				
Property and equipment additions in accounts payable	\$ -	\$ -	\$ 69,457	\$ -
Net change in unrealized gains and (losses) on investments	13,725	240,589	10,892	(526,335)

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital), is owned by Lyon County, Kansas, and operated by the Board of Trustees of Newman Memorial County Hospital, a seven-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1922, is a 99-bed, not-for-profit general hospital located in Emporia, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of Lyon County. The component units discussed in Note A2 are included in the Hospital's reporting entity because of the significance of their operational relationships with the Hospital.

The Hospital has entered into a management agreement with QHR, LLC, (QHR) for the operation of the Hospital. Under the agreement, QHR agrees to manage the daily operations of the Hospital and to provide the Hospital with the services of a chief executive officer employed by QHR. The Hospital Board of Trustees retains all authority and control over the business, policies, operations and assets of the Hospital.

2. Component units

The combined financial statements include discrete presentation of financial data of the Hospital's component units. They are reported in a separate column to emphasize that they are legally separate from the Hospital. The governing bodies of these component units are appointed by the Hospital and can be removed by the Hospital's board at will.

Newman Hospital Regional Health Foundation (the Foundation) is a not-for-profit corporation. The Foundation's purpose is to conduct its operations for the benefit and to carry out the purposes of the Hospital in the betterment and enhancement of the health care services for the citizens of the community. The Hospital is the sole voting member of the Foundation.

The Foundation is the sole voting member of Hand In Hand Homecare and Hospice, Inc. (the Hospice) a not-for-profit member corporation which provides hospice services. The financial data of the Hospice is included as a component unit in the combined financial statements.

The component units' financial statements have been reconfigured to allow for side-by-side columnar presentation with the Hospital's financial statements.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

4. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting," the Hospital has implemented all GASB pronouncements, and Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued before November 30, 1989, except those that conflict with GASB pronouncements and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

5. Cash and cash equivalents

Cash and cash equivalents include all cash and highly liquid debt instruments with maturities of three months or less excluding any such amounts included in short-term investments or assets limited as to use.

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

7. Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method.

8. Investments and investment income

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

9. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a trustee under bond indenture agreements; and assets restricted by donors for scholarships.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

10. Capital assets

Capital assets, including assets recorded as capital leases, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with useful lives established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

11. Cost of borrowing

Interest costs including amortization of deferred financing costs and bond discounts, incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Deferred financing costs incurred in connection with the issuance of long-term debt are amortized over the term of the related debt using the interest method.

12. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

13. Net assets

Net assets of the Hospital are classified in three components. "Net assets invested in capital assets net of related debt" consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net assets" are noncapital net assets that must be used

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note C. "Unrestricted net assets" are remaining net assets that do not meet the definition of "invested in capital assets net of related debt" or "restricted."

14. Operating revenues and expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

15. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

16. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care charges written off by the Hospital is disclosed in Note B.

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the balance sheet as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute, rehabilitation, and swing-bed care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or per day. These rates vary according to patient classification systems that are based on clinical, diagnostic, and

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE B - NET PATIENT SERVICE REVENUE - Continued

other factors. Most services rendered on an outpatient basis are paid at prospectively determined rates based on the patient's ambulatory payment classification. The Hospital receives pass-through cost reimbursement for its school of nursing program. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare fiscal intermediary through December 31, 2006.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis and are not subject to retroactive adjustment. In addition to these payments, the Hospital qualified for Medicaid access payments, as well as Medicaid disproportionate share hospital payments, in both 2009 and 2008.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of Hospital gross and net patient service revenue is as follows:

	<u>2009</u>	<u>2008</u>
Gross patient service revenue	\$ 93,761,995	\$ 92,596,244
Deductions from patient service revenue		
Third-party contractual adjustments	(44,185,522)	(42,207,899)
Medicaid DSH and access payments	1,311,731	1,130,080
Provision for bad debts	(2,743,606)	(2,121,319)
Charity care	(2,550,615)	(2,046,640)
Uninsured discounts	(1,340,746)	(1,165,828)
Other discounts and allowances	<u>(44,910)</u>	<u>(94,905)</u>
Net patient service revenue	<u>\$ 44,208,327</u>	<u>\$ 46,089,733</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 41 percent and 10 percent, respectively, of the Hospital's net patient revenue during 2009, and 42 percent and 9 percent, respectively, of the Hospital's net patient service revenue during 2008. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in future years.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE C - ASSETS LIMITED AS TO USE

Under bond indenture agreements - held by trustee

Assets limited as to use by bond indenture agreements are held by a trustee and are stated at fair value. These assets are related to the various revenue bond issues (Note E) and consist of the following:

	<u>2009</u>	<u>2008</u>
Principal and interest sinking fund - Series A, 2001	\$ 19,814	\$ 19,814
Bond reserve fund - Series A, 2001	421,428	424,167
Principal and interest sinking fund - Series B, 2001	92,081	92,086
Bond reserve fund - Series B, 2001	1,009,590	1,027,143
Principal and interest sinking fund - Series A, 2002	32,139	32,140
Bond reserve fund - Series A, 2002	718,402	723,026
	<u>\$ 2,293,454</u>	<u>\$ 2,318,376</u>

Assets are invested by the trustee as follows:

	<u>2009</u>	<u>2008</u>
Money Market Treasury Fund	\$ 540,906	\$ 155,233
U.S. Government and Agency obligations at fair value	1,724,125	2,116,400
Interest receivable	28,423	46,743
	<u>\$ 2,293,454</u>	<u>\$ 2,318,376</u>

Income earned on bond reserve funds may be transferred to the respective principal and interest sinking funds to pay a portion of the interest on the bonds. The bond reserve funds are available for bond principal and interest payments to prevent any default in the payment of principal or interest of the respective bonds or, if not so required, may be used to make the final payments of bond principal and interest.

Internally designated

The Hospital's Board of Trustees has designated certain investments to be used for future capital improvements and as reserves for self-insured health benefits. These assets, which consist of invested cash and accrued interest, may be used for other purposes by action of the Board of Trustees.

By contributors for scholarships

These assets include funds received from contributors that have been specifically designated for use as nursing scholarships.

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE D - CAPITAL ASSETS - HOSPITAL

	Balance December 31, 2008	Transfers and additions	Retirements	Balance December 31, 2009
Land	\$ 643,513	\$ -	\$ -	\$ 643,513
Land improvements	612,121			612,121
Buildings	33,557,637	730,841		34,288,478
Medical office building	11,395,472	51,753		11,447,225
Fixed equipment	9,860,502	299,071		10,159,573
Future expansion property	761,016	1,000		762,016
Major movable equipment	20,813,919	312,213	135,738	20,990,394
Totals at historical cost	77,644,180	1,394,878	135,738	78,903,320
Less accumulated depreciation for				
Land improvements	350,684	24,182		374,866
Buildings	17,420,374	1,616,406		19,036,780
Medical office building	4,313,739	429,786		4,743,525
Future expansion property	3,406			3,406
Fixed equipment	7,056,725	382,119		7,438,844
Major movable equipment	16,641,715	1,699,779	129,991	18,211,503
Total accumulated depreciation	45,786,643	4,152,272	129,991	49,808,924
	31,857,537	(2,757,394)	5,747	29,094,396
Projects in progress	354,157	(320,483)		33,674
Capital assets, net	<u>\$32,211,694</u>	<u>\$ (3,077,877)</u>	<u>\$ 5,747</u>	<u>\$29,128,070</u>
	Balance December 31, 2007	Transfers and additions	Retirements	Balance December 31, 2008
Land	\$ 643,513	\$ -	\$ -	\$ 643,513
Land improvements	612,121			612,121
Buildings	32,627,862	929,775		33,557,637
Medical office building	11,461,168		65,696	11,395,472
Fixed equipment	8,893,707	995,084	28,289	9,860,502
Future expansion property	761,016			761,016
Major movable equipment	20,018,381	1,386,336	590,798	20,813,919
Totals at historical cost	75,017,768	3,311,195	684,783	77,644,180
Less accumulated depreciation for				
Land improvements	323,730	26,954		350,684
Buildings	15,805,560	1,614,814		17,420,374
Medical office building	3,899,027	443,159	28,447	4,313,739
Future expansion property	3,406			3,406
Fixed equipment	6,720,934	360,521	24,730	7,056,725
Major movable equipment	15,022,505	1,951,123	331,913	16,641,715
Total accumulated depreciation	41,775,162	4,396,571	385,090	45,786,643
	33,242,606	(1,085,376)	299,693	31,857,537
Projects in progress	1,018,014	(663,857)		354,157
Capital assets, net	<u>\$34,260,620</u>	<u>\$ (1,749,233)</u>	<u>\$ 299,693</u>	<u>\$32,211,694</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt inclusive of capital lease obligations consists of the following:

	<u>Date issued</u>	<u>Original amount</u>	<u>Interest rate</u>	<u>Outstanding balance 2009</u>	<u>Outstanding balance 2008</u>
Lyon County, Kansas, Newnan Memorial County Hospital Refunding Revenue Bonds, Series A, 2001, term bonds due December 1, 2021, with mandatory redemptions beginning December 1, 2017	December 15, 2001	\$ 4,135,000	5.75%	\$ 4,135,000	\$ 4,135,000
Lyon County, Kansas, Newnan Memorial County Hospital Revenue Bonds, Series B, 2001, due serially through December 1, 2013	December 15, 2001	\$10,000,000	4.40% to 4.80%	3,715,000	4,605,000
Lyon County, Kansas, Newnan Memorial County Hospital Revenue Bonds, Series A, 2002, term bonds due December 1, 2016 and December 1, 2021, with mandatory redemptions beginning December 1, 2013	February 1, 2002	\$ 7,040,000	5.25% to 5.75%	7,040,000	7,040,000
Capital lease obligations, collateral- ized by leased equipment with an amortized cost of \$65,856 at December 31, 2009	Various dates	\$ 494,350	7.75% to 8.75%	77,522	186,791
Total long-term debt and capital leases				14,967,522	15,966,791
Less current maturities of long-term debt and capital leases				1,007,522	999,269
Long-term debt and capital leases, net of current maturities				<u>\$13,960,000</u>	<u>\$14,967,522</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES - Continued

The following is a summary of changes in long-term debt and capital leases for the year ended December 31, 2009:

	<u>Beginning principal outstanding</u>	<u>Additions to principal</u>	<u>Reduction of principal</u>	<u>Ending principal outstanding</u>
Hospital revenue				
bonds	\$15,780,000	\$ -	\$ 890,000	\$ 14,890,000
Capital leases	<u>186,791</u>	<u> </u>	<u>109,269</u>	<u>77,522</u>
	<u>\$15,966,791</u>	<u>\$ -</u>	<u>\$ 999,269</u>	<u>\$ 14,967,522</u>

Annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 930,000	\$ 798,413	\$ 1,728,413
2011	975,000	755,633	1,730,633
2012	1,020,000	709,808	1,729,808
2013	1,065,000	661,358	1,726,358
2014	1,125,000	609,000	1,734,000
2015 - 2019	6,585,000	2,075,512	8,660,512
2020 - 2022	<u>3,190,000</u>	<u>277,725</u>	<u>3,467,725</u>
	<u>\$ 14,890,000</u>	<u>\$ 5,887,449</u>	<u>\$ 20,777,449</u>

Scheduled annual future minimum lease payments under capital leases are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	<u>\$ 77,522</u>	<u>\$ 2,270</u>	<u>\$ 79,792</u>

The Series A, 2001, Series B, 2001, and Series A, 2002 bonds are special obligations of Lyon County and are payable on parity with and co-equal with the other solely from the net revenues of the Hospital. The net revenues of the Hospital are irrevocably pledged to the payment of the Series A, 2001, Series B, 2001, and Series A, 2002 bonds and interest thereon.

In 1993, the Hospital's 1969 Series A and B revenue bonds were defeased as a result of the Hospital purchasing guaranteed investments and placing these investments with an escrow agent, in an irrevocable trust, to be used solely for satisfying scheduled payments of principal and interest of the defeased debt. The transactions are considered as in-substance defeasance and the liability has been removed from the Hospital's books. In addition, the financial transactions, assets and liabilities of the special escrow account are not included in the Hospital's financial statements. The final principal and interest payment was made on the defeased 1969 Series A and B bonds in 2009.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES - Continued

On December 27, 2001, the County issued \$4,135,000 in Hospital Refunding Revenue Bonds, Series 2001-A, to use along with other available funds to advance refund its Series 1994 Revenue Bonds and extinguish its Series 1996 Taxable Health Care Facility Revenue Bonds.

The County issued \$10,000,000, Series 2001-B and \$7,040,000, Series 2002-A, Hospital Revenue Bonds on December 27, 2001, and February 1, 2002. The proceeds from these issues were used for the purpose of constructing and equipping a connector building between the Hospital and the medical office building, and to fund other renovations at the Hospital.

The indenture agreements for the bonds require the Hospital to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the bond principal and interest on the appropriate due dates. Such amounts were maintained and are included with assets limited as to use in the financial statements. The indenture agreements also include certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness and level of fees and rates charged.

NOTE F - DEFINED BENEFIT PENSION PLAN

Plan description. The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Substantially all employees of the Hospital are eligible to participate in KPERS following the completion of one year of service. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603-3803) or by calling 1-800-275-5737.

Funding policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4 percent of covered salary for an employee first employed before July 1, 2009. K.S.A. 74-49,210 establishes the KPERS member-employee contribution rate at 6 percent of covered salary for an employee first employed on or after July 1, 2009. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rates established by statute at December 31, 2009 and 2008, are 5.79 percent and 5.93 percent, respectively. The Hospital employer contributions to KPERS for the years ended December 31, 2009 and 2008, were \$1,082,556 and \$1,090,851, respectively, equal to the statutory required contributions for each year.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE G - INTEREST EXPENSE

Total interest costs incurred are as follows:

	<u>2009</u>	<u>2008</u>
Total interest incurred	\$ 849,046	\$ 901,037
Amortization of deferred financing costs	<u>23,366</u>	<u>25,976</u>
Interest expense	<u>\$ 872,412</u>	<u>\$ 927,013</u>

NOTE H - RELATED ORGANIZATIONS

The Hospital has entered into contractual arrangements with Hand In Hand Homecare and Hospice, Inc., (a component unit) to provide the Hospice with management and nursing services as well as pharmaceutical supplies. Under the agreements, the Hospital is responsible for providing qualified employees to perform hospice services for the Hospice. In 2009 and 2008, the Hospital recorded approximately \$843,000 and \$707,000, respectively, as other operating revenue for the sale of these services to the Hospice. At December 31, 2009 and 2008, amounts receivable from the Hospice for contracted services were \$90,922 and \$86,734, respectively.

The Hospital contracts for management services, services of certain management personnel and other services with QHR. Under the agreement, QHR is responsible for daily management and administration of the Hospital, with ultimate control over the assets and operations of the Hospital retained by the Hospital's board. For the years ended December 31, 2009 and 2008, the Hospital expensed \$386,291 and \$368,038, respectively, for management services provided by QHR. The Hospital also reimburses QHR for salaries, benefits and expenses of the chief executive officer (Note A1).

NOTE I - LEASE COMMITMENTS

Space is leased in the hospital and the medical office building to various physicians and other medical professionals. Lease income for the years ended December 31, 2009 and 2008, was \$696,239 and \$713,266, respectively. Future minimum lease payments receivable under these agreements as of December 31, 2009, are as follows:

Year ending December 31,	
2010	\$ 507,761
2011	508,553
2012	163,135
2013	<u>80,755</u>
	<u>\$ 1,260,204</u>

The Hospital leases equipment under operating leases with related rentals charged to operations as incurred. Total rent expense for 2009 and 2008 was \$217,465 and \$159,725, respectively.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE J - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Statutes also require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

The carrying amount of the Hospital's deposits with financial institutions was \$13,697,477 and the bank balance was \$14,280,638 at December 31, 2009. The bank balance is categorized as follows at December 31, 2009:

Amount insured by the F.D.I.C., bank deposit guaranty bond, or collateralized with securities held by the Hospital in its name	\$ 1,027,000
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name)	<u>13,253,638</u>
	<u>\$ 14,280,638</u>

NOTE K - CONCENTRATION OF CREDIT RISK

The Hospital is located in Emporia, Kansas. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2009</u>	<u>2008</u>
Medicare	37%	39%
Medicaid	10	10
Blue Cross	15	15
Commercial insurance	14	14
Workers' compensation	3	3
Self-pay	<u>21</u>	<u>19</u>
	<u>100%</u>	<u>100%</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE L - RISK MANAGEMENT

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$12,000,000 per occurrence with an aggregate amount in any policy year of \$12,000,000 for occurrences after January 1, 2008. Umbrella liability limits for incidents occurring prior to January 1, 2008, were \$10,000,000. All coverage is on a claims-made basis. The above policies were renewed in January 2010, for the policy period from January 1, 2010 to December 31, 2010.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE M - RECEIVABLES SOLD WITH RECOURSE

The Hospital has agreements with local financial institutions under which it sells the Hospital's interest in certain self-pay accounts receivable. Sales under this agreement in 2009 and 2008 amounted to approximately \$319,000 and \$306,000, respectively. At December 31, 2009 and 2008, approximately \$418,000 and \$393,000 of such receivables remained uncollected. The receivables are sold with full recourse, and the Hospital is contingently liable for any uncollected amounts. The Hospital has recorded a liability for receivables sold at December 31, 2009 and 2008 of \$93,000 and \$58,000, respectively.

NOTE N - SHORT-TERM INVESTMENTS

The Component Units' investment securities are held for an indefinite period and, thus, are classified as available for sale.

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE N - SHORT-TERM INVESTMENTS - Continued

The cost and unrealized gains (losses) of the Component Units' short-term investments at December 31, 2009 and 2008, are summarized as follows:

	2009			2008		
	Cost	Gross unrealized gain (loss)	Estimated fair value	Cost	Gross unrealized gain (loss)	Estimated fair value
Common stock mutual funds	\$1,186,004	\$ (243,753)	\$ 942,251	\$1,186,004	\$ (442,874)	\$ 743,130
Fixed income mutual funds	428,471	2,056	430,527	331,744	(20,027)	311,717
U.S. Government and Agency obligations				99,492	2,837	102,329
Corporate bonds	399,929	26,889	426,818	399,929	6,236	406,165
Commodity index mutual funds	20,937	(10,436)	10,501	20,937	(11,496)	9,441
	<u>\$2,035,341</u>	<u>\$ (225,244)</u>	<u>\$ 1,810,097</u>	<u>\$2,038,106</u>	<u>\$ (465,324)</u>	<u>\$1,572,782</u>

NOTE O - SUBSEQUENT EVENT

On April 1, 2010, the Lyon County, Kansas Public Building Commission issued \$14,120,000 in Hospital Revenue Refunding Bonds, Series 2010-A, to use along with other available funds to refund on a current basis its Series 2001-A Hospital Refunding Revenue Bonds, Series 2001-B Hospital Revenue Bonds, and Series 2002-A Hospital Revenue Bonds. The interest rates on the bonds range from 2.00% to 4.00%. The bonds are due serially through December 1, 2021.